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C O N F I D E N T I A L SECTION 01 OF 02 BUCHAREST 000358

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SUBJECT: ROMANIA: HEALTH MINISTER BAZAC OUTLINES HIS PRIORITIES

REF: A) BUCHAREST 337 B) BUCHAREST 315

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Classified By: Charge d'Affaires, a.i. Jeri Guthrie-Corn for reasons 1. 4 (b) and (d).

¶1. (SBU) Summary. In a May 20 meeting, Minister of Health Ion Bazac shared privately with the Charge d'affaires many of the same goals for the health care sector that he has publicly outlined over the last several months (ref B). Agreeing that changes to the system are badly needed, Bazac was quick to add that he is working for restructuring, not just reform, as Romania's health system has failed to improve after years of reform plans. Despite only four months on the job, Bazac claimed successes in his efforts to limit the cost of prescription drugs (pointing to 110 million euro in yearly savings), introduce co-payments, begin the decentralization process, and establish medical protocols for common diseases.

The Minister thanked the Charge for the recently completed, USTDA-funded study of the Romanian healthcare sector and indicated his interest in moving forward on the hospital accreditation program, which the study identified as a priority project. End Summary.

¶2. (SBU) The Charge, accompanied by EconCoun and EconOff, met with Minister Ion Bazac May 20 to discuss the state of health care in Romania and to explore areas for bilateral cooperation. Recognizing that more private sector involvement is needed, the Minister highlighted his efforts to include healthcare-specific language in the Government's draft public-private partnership (PPP) legislation. Referring to the World Bank assistance provided as part of Romania's recent IMF standby agreement, Bazac quoted the World Bank as having said that "Romania has the most reformed healthcare system in Eastern Europe." He continued that this was said in irony, as there has been very little follow-through on any of the reform plans. Despite this, he noted that public expectations were high and that the moment was right to begin a real restructuring of the medical system. The Charge observed that America has many examples of successful business models which could be adapted for Romania, such as walk-in mini-clinics run by drug store chain CVS, which provide good, basic healthcare at a minimal cost. While Bazac agreed that models like these could be used to provide enhanced care in rural areas, he underlined that Romania was a European country and would not stray far from the "universal care" model currently in place. He added that any restructuring would try to emulate as much as possible the Slovak, and to a lesser extent the French, health systems.

¶3. (SBU) Perhaps anticipating some friction, the Minister

introduced the controversial issue of pharmaceutical pricing by highlighting up front how proud he was to have saved the system 110 million euro, and remarking that the lower costs for prescription drugs were politically popular. The Charge and EconCoun raised both the fixed exchange rate and the "circular reference price" for generic medications (ref A) as points which presented difficulties for U.S. firms. In response, Bazac said that he had personally discussed the changes ahead of time with importing firms and that they had raised no objections, only to turn around and file a lawsuit against the Ministry for not adequately consulting with stakeholders. Bazac affirmed that he is willing to revisit the pricing issue but indicated the "unfair" lawsuit is a lingering point of contention, constituting an "unfortunate barrier" to closer cooperation with firms. Asked by EconCoun whether dropping the lawsuit was a precondition for open discussions, Bazac said that it was not and added that he believed no court would cancel his orders and reinstate the old pricing system.

¶4. (SBU) In a frank discussion of public health programs, the Minister said that Romania has the dubious distinction of being European "champion" in terms of cancer, with rates nine times higher than the EU average. The Charge raised Romania's high incidence of cervical cancer and expressed regret that Romania's previous HPV vaccination campaign had failed (ref C). Blaming a poorly implemented public relations campaign conducted by the previous government, the Minister assured the Charge of his commitment to try to re-launch the campaign this fall. He indicated that the Ministry was cooperating closely with the two vaccine producers (Merck, Sharpe and Dohme, and GlaxoSmithKline) on a new public education strategy to promote acceptance of the HPV vaccine. In terms of broader public health, Bazac pointed to the role that well-defined medical protocols could

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play in treating chronic illnesses like cancer, heart disease, and diabetes. By standardizing care across facilities, his hope is that protocols can improve quality while keeping a lid on costs.

¶5. (SBU) Concerning other reforms, Bazac and the Charge agreed that the planned introduction of co-payments for medical services provides an opportunity to increase compensation for doctors, hopefully staunching the exodus of medical professionals from Romania and reducing incentives for petty corruption. Still, Bazac acknowledged that co-payments are not a panacea for reducing bribes to doctors and that a generational change would ultimately be needed. To address the problem of medical school graduates leaving Romania, Bazac said punitive measures could be put in place requiring graduates who do not work in Romania after graduation to pay back the State for the cost of their educations. The decentralization process, whereby management of hospitals is partially transferred to local authorities, will continue, though the Ministry will still retain responsibility for furnishing and equipping hospitals. Bazac will allow localities to nominate, but not directly name, hospital administrators, and he hopes these will include foreign management firms specialized in this field. The recommendation by the recent USTDA-sponsored study that Romania develop and implement an accreditation program will help ensure the consistency of care, even as hospital management is increasingly decentralized.

¶6. (C) Comment. The Minister appeared earnest in his belief that he is doing the right thing for Romania through his aggressive restructuring plan. By adopting co-payments for medical services, decentralizing hospital management, and opening the door for increased private participation, he is moving in the right direction. His remarks on pharmaceutical pricing, however, seemed a bit disingenuous, especially given the very different version of events related to us by American pharmaceutical companies. While a meeting did take place prior to implementation of the new regulations, the

companies characterized it as a presentation by the Minister on what was going to happen, not as a two-way discussion. For Minister Bazac, on the other hand, the lack of strident objections meant that the companies tacitly accepted his plans and agreed that pharmaceutical prices had to come down.

Ultimately the dispute boils down to the question of who should bear the exchange rate risk. Previously it was the drug distributors, who had to pay for purchases from pharmaceutical companies in euros or dollars, but sell to hospitals and clinics in RON. The new regulations flip this by requiring importers to sell in RON at regulated rates, while guaranteeing a steady profit margin for distributors. Given the Bazac family's financial interests in the Romanian healthcare sector, this preference for domestic firms is unsurprising. The fact that the Romanian public benefits from cheaper drug prices in this case makes the fix that much more palatable. End Comment.

GUTHRIE-CORN